

**BEFORE THE  
PUBLIC SERVICE COMMISSION  
OF SOUTH CAROLINA**

**DOCKET NO. 2013-47-W**

**In the Matter of:**

**Application of AAA Utilities, Inc.  
for Adjustment of Rates and Charges  
and Modifications of Certain  
Terms and Conditions for the Provision  
of Water Service**

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**DIRECT TESTIMONY**

**OF**

**GARY E. WALSH**

**Q. WOULD YOU PLEASE STATE YOUR FULL NAME AND PRESENT POSITION?**

A. My name is Gary E. Walsh. I am retired from the Public Service Commission of South Carolina and currently employed as a utility regulatory consultant by my own firm, Walsh Consulting Group LLC.

**Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

A. I received a Bachelor of Science Degree in Business Administration (Banking and Finance) from the University of South Carolina in 1972. During my thirty one year career at the Public Service Commission of South Carolina I attended numerous seminars, workshops, and educational forums sponsored by the National Association of Regulatory Utility Commissioners.

**Q. WOULD YOU PLEASE DESCRIBE YOUR WORK EXPERIENCE?**

A. Yes. I began working with the Public Service Commission as an auditor in 1972. In this capacity I was responsible for conducting audits of public utilities under the Commission's jurisdiction. In addition, I presented testimony before the Commission in rate cases involving electric, gas, telecommunications, water, and wastewater companies. My testimony in these

1 matters related to audit results and rate design issues. In 1987, I was promoted to the position of  
2 Assistant Director of the Utilities Division. My responsibilities in this position were supervision  
3 of the electric, gas, telecommunications and water and wastewater departments. In July of 1994,  
4 I was promoted to the position of Deputy Executive Director. My responsibilities in this position  
5 involved the supervision of the Commission employees in the Utilities and Transportation  
6 Departments. In 1998 I was promoted to the position of Executive Director of the Public Service  
7 Commission. In this position, I reported directly to the Commissioners and had supervision of all  
8 Commission staff members.

9 **Q. WOULD YOU PLEASE DESCRIBE THE REGULATORY CONSULTING WORK**  
10 **YOU HAVE BEEN DOING SINCE YOU RETIRED FROM THE COMMISSION?**

11 A. Yes in November 2003 I formed the Walsh Consulting Group and began working with  
12 jurisdictional utilities on a wide variety of regulatory matters for companies appearing before the  
13 Public Service Commission. Since 2003 I have been retained to provide consulting services for  
14 electric, gas, telecommunications, water and wastewater companies. Included in this work has  
15 been both accounting and financial analyses associated with rate relief proceedings.

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

17 A. The Walsh Consulting Group was engaged by AAA Utilities, Inc. ("AAA") to assist in the  
18 preparation of an application for an increase in water rates. The purpose of my testimony is to  
19 support AAA's application for an adjustment of certain rates and charges for the provision of  
20 water service.

21 **Q. PLEASE DESCRIBE THE COMPANY'S APPLICATION.**

A. The rate case application includes financial statements for AAA. The statements are as follows:

Exhibit A – Proposed Schedule of Rates and Charges

Exhibit B – Balance sheet

Exhibit C – Pro Forma Income and Expense Statement

Exhibit D – Income and Expense Statement

Exhibit E – Calculation of Proposed Water Revenue

Exhibit F – Schedule of Current and Projected Customers

Exhibit G – Utility Plant In Service

**Q. PLEASE DESCRIBE EXHIBIT C AND ELABORATE ON THE CALCULATIONS.**

A. Exhibit C details the company's operating revenues, operating expenses and operating income for the test year ended December 31, 2012.

**Column (1)** reflects the per book operating revenues, operating expenses and operating income for the test year ended December 31, 2012 as contained in the Water Utility Annual Report of AAA Utilities, Inc. filed with ORS. Based on total water revenue of \$96,442 and total operating expenses of \$101,103 a net loss of \$4,661 is produced for the test year.

**Column (2)** reflects the company's proposed accounting and pro forma adjustments designed to normalize the per book operations. An explanation of each adjustment is as follows:

**Adjustment 1** – AAA proposes to annualize unmetered water revenues for the test year to reflect year end customers at currently approved rates. Details of this adjustment totaling \$2,760 can be seen in Exhibit E of the application.

1        **Adjustment 2** – AAA proposes to annualize metered water revenues for the test  
2        year to reflect year end customers at currently approved rates. Details of this  
3        adjustment totaling (\$5,961) can be seen in Exhibit E of the application.

4        **Adjustment 3** – AAA proposes to allocate a portion of administrative personnel  
5        salaries being incurred by AAA Well Drilling, Inc. to AAA Utilities, Inc. This  
6        adjustment totaling \$10,368 reflects the performance of various duties for AAA  
7        Utilities, Inc. including billing, mailing and posting of all water payments.

8        **Adjustment 4** – AAA proposes to increase miscellaneous expense by \$750 to  
9        reflect a portion of the rate case expense associated with the rate application.

10       **Adjustment 5** – AAA proposes to increase depreciation expense by \$807 to  
11       reflect depreciation on pumping equipment purchased outside the test year using  
12       commission approved depreciation rates.

13       **Adjustment 6** – AAA proposes to increase payroll tax by \$1,753 to reflect  
14       salaries and wages paid during the test year and salaries and wages contained in  
15       adjustment 3.

16       **Column (3)** reflects a normalized test year for AAA by adding columns (1) and (2). After  
17       accounting and pro forma adjustments total operating income of (\$21,453) was computed using  
18       total water revenue of \$93,241 and total operating expenses of \$114,694.

19       **Column (4)** reflects the Company's proposed increase and the calculation of taxes associated  
20       with the proposed increase. An explanation of the adjustments is as follows:

1        **Adjustment 7** – AAA proposes to increase unmetered water revenue to reflect the  
2        requested rate increase. Details of this adjustment totaling \$4,920 can be seen in  
3        Exhibit E.

4        **Adjustment 8** – AAA proposes to increase metered water revenue to reflect the  
5        requested rate increase. Details of this adjustment totaling \$35,453 can be seen in  
6        Exhibit E.

7        **Adjustment 9** – AAA proposes to increase other taxes and licenses in the amount  
8        of \$378 to reflect gross receipts tax associated with the proposed increase.

9        **Adjustment 10** – AAA proposes to increase federal income tax in the amount of  
10       \$5,699 to reflect tax associated with the proposed increase.

11       **Adjustment 11** – AAA proposes to increase state income tax in the amount of  
12       \$2,000 to reflect tax associated with the proposed increase.

13       **Column (5)** reflects the company's financials after the proposed rate increase by adding columns  
14       (3) and (4). Total Operating Income of \$10,843.00 was computed using Total Operating  
15       Revenues of \$133,614 and Total Operating Expenses of \$122,771.

16       **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

17       A. Yes